

49.203 Adjustment for loss.

(a) In the negotiation or determination of any settlement, the TCO *shall* not allow profit if it appears that the contractor would have incurred a loss had the entire contract been completed. The TCO *shall* negotiate or determine the amount of loss and make an adjustment in the amount of settlement as specified in paragraph (b) or (c) of this section. In estimating the cost to complete, the TCO *shall* consider expected production efficiencies and other factors affecting the cost to complete.

(b) If the settlement is on an inventory basis (see [49.206-2\(a\)](#)), the contractor *shall* not be paid more than the total of the amounts in paragraphs (b)(1), (2), and (3) of this section, less all disposal credits and all unliquidated advance and progress payments previously made under the contract:

(1) The amount negotiated or determined for settlement expenses.

(2) The contract price, as adjusted, for acceptable completed end items (see [49.205](#)).

(3) The remainder of the settlement amount otherwise agreed upon or determined (including the allocable portion of initial costs (see [31.205-42\(c\)](#)), reduced by multiplying the remainder by the ratio of-

(i) The total contract price to

(ii) The total cost incurred before termination plus the estimated cost to complete the entire contract.

(c) If the settlement is on a total cost basis (see [49.206-2\(b\)](#)), the contractor *shall* not be paid more than the total of the amounts in paragraphs (c)(1) and (2) of this section, less all disposal and other credits, all advance and progress payments, and all other amounts previously paid under the contract:

(1) The amount negotiated or determined for settlement expenses.

(2) The remainder of the total settlement amount otherwise agreed upon or determined (lines 7 and 14 of [SF 1436](#), *Settlement Proposal* (Total Cost Basis)) reduced by multiplying the remainder by the ratio of-

(i) The total contract price to

(ii) The remainder plus the estimated cost to complete the entire contract.

Parent topic: [Subpart 49.2 - Additional Principles for Fixed-Price Contracts Terminated for Convenience](#)